

IN-HOUSE SEMINAR MATERIALS

HOW TO CONDUCT AN IN-HOUSE DEPOSIT INSURANCE SEMINAR FOR YOUR INSTITUTION'S EMPLOYEES

Every insured institution has a responsibility to ensure that any of its employees who have direct contact with depositors or who provide account advice to depositors are adequately trained about the FDIC's deposit insurance rules. Such training should provide a thorough explanation of the deposit insurance rules, including the requirements to qualify for insurance coverage under the different account ownership categories. In addition, an effective training program should provide employees with the opportunity to receive training on a regular basis to update them on changes to the insurance rules or just to "refresh" their knowledge.

The FDIC is committed to supporting insured institutions' efforts to provide adequate deposit insurance training to their employees. The FDIC's Division of Compliance and Consumer Affairs and Legal Division have prepared this manual to assist insured institutions in developing an in-house training program on FDIC deposit insurance coverage. This manual includes:

1. *Draft Script for Bank and Thrift Managers on the FDIC Deposit Insurance Rules*

The script provides, in an oral presentation format, the basic material that should be covered in a training program designed to provide a general overview of the deposit insurance rules. The script does not cover all the deposit insurance regulations and related requirements, but instead focuses on the types of accounts routinely encountered at insured institutions.

2. *Sample Overheads*

This section contains the text for sample overheads to be used during a training presentation on the deposit insurance rules. The overheads were designed to complement the training script. The hard copies in this Chapter can be converted quite easily into transparencies for an overhead projector.

3. *Tests for Trainees*

To test employees' knowledge of what they learned at the training session, the following materials are provided:

- 3 Joint Account Worksheets
- Final Exam Questions
(5 multiple choice questions on the basic deposit insurance rules)

Target Audience

The target audience for this course is financial institution employees who respond to routine questions about deposit insurance from customers. These individuals generally include branch managers, platform assistants, new accounts personnel, and tellers.

Additional Materials Needed

In addition to the materials provided in this manual, you will need the following materials to conduct your own in-house training program on deposit insurance:

- Copies of the FDIC's ***revised*** Financial Institution Employee's Guide to Deposit Insurance
- A classroom supplied with an overhead projector and screen, flip chart easel and pads, and magic markers
- Plenty of masking tape so completed flip chart pages may be posted
- A supply of the FDIC's brochures titled "Your Insured Deposit" (1993 edition) and "Insured or Not Insured." Both of these pamphlets are available for free and in bulk to all FDIC-insured institutions. To obtain a supply of these brochures, write to:

FDIC
Printing and Graphics
Room F211
550 17TH Street, NW
Washington, DC 20429-0002

Or Fax a request on your institution's letterhead to:
202-898-3549

Additional Assistance Available From FDIC

The FDIC maintains a toll-free Hotline to answer deposit insurance questions from the general public and institution staff. To contact the Deposit Insurance Hotline, call:

1-800-934-3342 or 1-202-942-3100
1-800-925-4618 or 1-202-942-3147 (TDD)

The FDIC also provides written responses to letters via both US Mail and the Internet. To obtain a written reply to a question about FDIC deposit insurance, write to:

Federal Deposit Insurance Corporation
Division of Compliance and Consumer Affairs
550 17th Street, N.W.
Washington, DC 20429-0002

To obtain an electronic reply, send an e-mail message to:

Consumer@FDIC.gov

Information on deposit insurance and consumer rights can also be found on the Internet at the following address:

Web page: <http://www.fdic.gov>.

DRAFT SCRIPT FOR BANK AND THRIFT MANAGERS

Today, we'll discuss the deposit insurance rules in detail to give you an effective working knowledge of the rules that are critical to protecting our customers' funds while maximizing the funds that can be deposited with us with full insurance protection.

FDIC DEPOSIT INSURANCE BASICS

The FDIC insures deposits in most banks and savings institutions. Deposits in commercial banks are insured by the FDIC's Bank Insurance Fund, the BIF, and deposits in savings institutions are insured by the Savings Association Insurance Fund, the SAIF.

The FDIC pays deposit insurance to an institution's customers when a depository institution fails and must be closed by its chartering authority. Federal deposit insurance does not cover loss of deposits by fire, theft or fraud. Federal deposit insurance also does not cover the contents of safe deposit boxes.

The basic FDIC insurance limit for a depositor, regardless of citizenship or country of residence, is \$100,000. In calculating the amount of an insured deposit, the principal is added to any interest earned as of the date of the institution's failure, including the amount of interest that would have been paid on that day had the institution not failed.

The deposit insurance limit applies to funds held in each federally insured institution without regard to deposits held in other federally insured institutions. If a depositor's account contains funds owned in the same ownership category in two or more branches of the same institution, however, they would be added together -- or **aggregated** -- for insurance calculation. If a parent company owns several FDIC-insured institutions, deposits at each institution are separately insured -- despite the

common ownership of the institutions -- so long as each institution is separately chartered.

FDIC deposit insurance is governed by the principle that deposits maintained by the same person in the same right and capacity are added together and insured up to \$100,000. Examples of accounts held in different rights and capacities are a single ownership account, a joint account and a trust account. All types of deposits --whether they are certificates of deposit, checking accounts, savings accounts, money market or NOW accounts -- are added together for the purpose of calculating insurance if they are held in the same name in the same ownership category, and in the same institution.

CATEGORIES OF DEPOSIT INSURANCE

There are several separately insured account ownership categories. In each category, there are specific requirements that must be met to qualify for coverage under that category. If an account fails to meet the requirements for separate coverage in a particular account ownership category, the funds are usually insured to \$100,000 as the owner's single ownership funds.

The first \$100,000 that an individual or a couple holds in an FDIC-insured institution is always insured. To qualify for FDIC insurance in excess of \$100,000, certain requirements must be met. We'll review each of the categories and the related requirements that must be met in each one.

SINGLE OWNERSHIP CATEGORY

A thorough understanding of the single ownership category is essential to protecting the funds of depositors who want to keep more than \$100,000 with us. Several types of accounts that you probably see each day fall within the single ownership category.

- The most common type is the **Individual, or Single Ownership account** -- funds owned by an individual, not a couple, trust, or corporation. The combination of all Single ownership accounts owned by the same person and deposited at the same institution in the name of that person is insured up to \$100,000, including principal and any earned interest.

For example, if a depositor has a \$22,000 money market deposit account, a \$10,000 checking account and a \$72,000 certificate of deposit, these accounts are added together for insurance purposes, and the total -- \$104,000 -- is insured up to \$100,000 -- leaving \$4,000 uninsured.

If **more than one person has the right to withdraw** funds from a single ownership account, the account will be insured as a **joint ownership** account **unless** one of these two situations exists:

- One person owns the funds and the other signatories hold only a Power of Attorney. That is, they are not owners but can **act** on the owner's behalf.
- Or, one person owns the funds and the account records clearly indicate that the other signatories are only "authorized signers" for convenience purposes.

Thus, if the account records clearly indicate that the other signers are not co-owners, the account will be insured as the sole owner's single ownership funds.

Next, let's look at funds owned by a **sole proprietorship** and deposited in the name of the business. Funds of a sole proprietorship are insured as the single ownership funds of the person who **owns** the business. Thus, the business' deposits are added to any other single ownership accounts of the sole proprietor and the total is insured up to \$100,000. A sole proprietorship is defined in the FDIC's deposit insurance regulations as a form of business in which one person owns all the assets of the business, in contrast to a partnership or a corporation.

Many small family businesses are informal "Mom and Pop shops" with both Mom and Pop signing the signature card. Unless there is **affirmative evidence** in the account records that one person is an authorized signer only and not an owner, these accounts are insured as either **joint** accounts or **partnership** accounts if the **state law** requirements for establishing a partnership are met. Of course, the insurance limit is \$100,000 regardless of whether the funds held in the name of the business are insured:

- as a joint ownership account, because two people signed the signature card and have the same withdrawal rights, or
- as a business account, because the business qualifies as a partnership under state law, or
- as a single ownership account, because the funds are owned by a sole proprietorship.

Although the insurance limit is the same in each of these three ownership categories, it's important to decide which category the business account belongs to, because only then will you know what **other** accounts are added to it to calculate the FDIC insurance coverage.

Another type of single ownership account is one that **holds community property in one spouse's name**. In a community property state, some funds held in the name of one spouse are considered to be legally owned by both. The deposit insurance regulations state that an account in the name of one spouse is insured as the single ownership funds of that person only, regardless of whether the funds are owned as community property under state law.

When an account holder dies, any single ownership accounts held in the **decedent's name** and any accounts held in the name of the decedent's **estate** will be insured together for up to \$100,000. Decedent and decedent estate funds are insured separately from any personal funds of the executor or administrator of the estate and from the beneficiaries of the estate for the life of the estate. An executor of an estate should title accounts in a way that discloses the **actual capacity** in which the funds are held, such as "Jane Smith, Executor of Ann Perry's Estate." If the account is titled in the executor's name only, without indicating the fiduciary capacity in which s/he is acting, the funds of the estate will not be separately insured from the executor's personal funds at the same institution.

Mortgage servicing accounts are escrow accounts maintained by a mortgage servicer acting in a custodial capacity for various borrowers, known as mortgagors. When a mortgage servicing account holds **taxes and insurance (T&I) premiums** paid by mortgagors, the interest of each mortgagor in the T&I portion of the account is insured to \$100,000, as if it were the **single ownership** funds of that mortgagor.

If two mortgagors are joint borrowers and, thus, pay their taxes and insurance premiums into the account jointly, their interest in the T&I portion of the mortgage servicer's account is insured as if it were their **joint account**, and would be added together with any other joint ownership accounts held by the same owners at the same institution, and the total amount is insured up to \$100,000.

The taxes and insurance premiums are treated differently, on the basis of ownership, from the principal and interest payments. Although a mortgagor probably makes monthly payments to a mortgage servicer to cover annual tax and insurance bills, the money still belongs to the mortgagor until the annual payments are actually made by the mortgage servicer. However, as soon as the mortgagor makes her monthly mortgage payment, the principal and interest portions become the property of the lender and are insured immediately as the lender's funds, usually in the corporate account category, which provides coverage of up to \$100,000 in one institution.

The amount of a single month's T&I might be fairly insignificant compared to the \$100,000 insurance limit, but by the tenth or eleventh month, the total of the T&I payments accumulated in a borrower's mortgage servicing account can amount to an appreciable figure, which might put the balance over the \$100,000 limit, especially if s/he has other single ownership accounts in the same institution as the mortgage servicer.

Although most of us don't have over \$100,000 on deposit, think about how many of the depositors who do hold jumbo CDs who may also have mortgages. This is the group of customers we'll be protecting by our awareness of how this rule works.

Now, let's review for a minute. We're talking about the different types of accounts that are either **single ownership accounts** or that may sometimes be insured as if they were in the single ownership category. We've talked about single ownership accounts that are in the form of **individual accounts**, those that are funds belonging to a **sole proprietorship**, **community property funds** held in one spouse's name, **decedent accounts** and decedent estate accounts.

We've also talked about **mortgage servicing accounts**, which are fiduciary, rather than single ownership, accounts. However, the T&I portions of these mortgage

servicing accounts can be treated as single ownership accounts for deposit insurance purposes if the owner of the T&I payments is a single individual.

All of the types of accounts we've described are deposited directly by the owner except for decedent estate accounts and mortgage servicing accounts. These last two types are deposited by **someone who acts in a fiduciary capacity**, handling funds that **belong to** someone else. These fiduciary accounts are **insured to the actual owner** (or to the owner's estate) in the owner's single ownership capacity if:

- the owner is deemed to be an individual for insurance purposes, and
- certain recordkeeping requirements are met.

The recordkeeping requirements are that the title of the account must indicate that the funds are being held in a fiduciary capacity, and either the institution's deposit account records or the records maintained in the normal course of business by the account holder -- the agent who is acting for the owner -- or someone who is acting on the agent's behalf such as a CPA -- must reveal the owner's identity and ownership amount.

Funds deposited by an agent on behalf of an owner are insured as the funds of the owner, whether the owner is an individual or an entity such as a corporation. If the owner is an individual, the insurance will be up to \$100,000 in the single ownership category. If an agent deposits funds for more than one owner (as opposed to jointly owned funds held by an agent), each owner's funds will be insured up to \$100,000 if the recordkeeping requirements are met. The requirements, again, are that:

- the agent's fiduciary capacity must be disclosed in the account title, and
- the deposit account records or records maintained in the normal course of business by the agent, or someone acting for the agent, must show the names and interests of each owner of the funds.

If both of these requirements are met, the funds of each owner are separately insured. However, the funds are added together with any other single ownership funds the principal holds at the same institution, and the total is insured up to \$100,000.

Funds held by an agent for any joint owners, regardless of their relationship, are insured as their joint ownership funds if:

- the recordkeeping requirements for agent accounts are met, and
- the requirements of the joint ownership category are met.

The requirements for insurance coverage as a joint account are that:

- the joint owners must be two or more natural persons -- not corporations or any other legal entity, and
- each owner must possess equal withdrawal rights.

If these joint account requirements are met, the co-owners' joint ownership funds deposited by the agent are added together with any other joint accounts the couple holds at the same institution, and the total is insured up to \$100,000.

Funds deposited by an agent such as a guardian or custodian are insured as if they are the sole owner's single ownership funds if certain recordkeeping requirements are met. For example, let's look at an account titled "Jane Jones, guardian for Susan Brown, minor." Regardless of whether Jane is Susan's court-appointed guardian, the

funds in this account are added together with any other accounts owned by Susan (the minor) at the same institution, and her total is insured up to \$100,000. Thus, funds held in accordance with the **Uniform Gifts to Minors Act** are insured up to \$100,000 as if they were the minor's single ownership funds.

Another type of agent who will often ask about the FDIC's insurance coverage of money deposited with us might be a rental agent or a law firm. The rental agent usually establishes an account to hold rental security deposits. The law firm usually opens accounts to hold clients' deposits. When their business with the client is completed, the deposit money might be returned to the client. It might become the law firm's money or, in the case of the rental agent's security deposits, some of the funds in the account might become the funds of the apartment complex owner if a tenant's security deposit is forfeited.

For example, if the FDIC went into a failed institution to determine insurance, it might see from the title of an account that ABC Rental Agent is holding funds for the residents of the East Village Complex. This disclosure of the agent's fiduciary capacity could be made through a variety of phrasings, e.g., "ABC Rental as Agent Account." The disclosure requirement is satisfied if the account title reveals that someone is depositing funds that belong to someone else. This allows the deposit insurance to "pass through" from the agent to the actual owner. In this way, the agent can deposit far more than \$100,000 and the funds will be insured up to \$100,000 for each owner, but only if:

- proper disclosure is made in the title, and
- the agent keeps records that identify each owner and the amount owned by each.

Again, remember that the amount deposited by an agent and owned jointly by Jane and Jim Smith will be added together with any other joint ownership accounts Jane and Jim hold at the same institution.

Likewise, if an agent has deposited funds for an apartment complex owner that is a corporation or a partnership, the total of all deposits owned by the corporation or partnership at the same institution will be insured to \$100,000.

Let's think about how the recordkeeping requirements for agent accounts actually work. Consider what happens when a tenant vacates an apartment and the rental agent finds so much damage that the security deposit can't be returned. The rental agent should immediately change her records to show that the tenant's security deposit is now owned by the complex owner.

The agent wouldn't actually rush into the bank to withdraw the amount of the security deposit from the rental agent's escrow account and deposit it into the complex owner's account. Instead, the FDIC would review the agent's records to determine which party actually owned what amount at the time the institution was closed.

Another interesting variety of agent account is that in which a law firm holds its clients' funds in so-called "**attorney trust accounts.**" Many states have laws that require this vesting. However, these deposits are insured by the FDIC as funds held by an agent, rather than as trust funds. Funds deposited by a law firm on behalf of clients are insured up to \$100,000 as the funds of each actual owner if the disclosure and recordkeeping requirements are met. Vesting such as "Smith & Jones Attorney Trust Account" will satisfy the requirement that the agent must disclose the fiduciary capacity in the account title.

Another type of account that may be added together with single ownership funds for calculation of deposit insurance is an account that **fails to qualify** for separate insurance coverage in other account ownership categories. Accounts that often fail to receive separate insurance are:

- joint accounts that don't show each owner's signature on the signature card, and
- two types of revocable trust accounts.

--The first is the "**payable-on-death**" (or POD) account that names a **beneficiary who doesn't qualify** as the owner's spouse, child or grandchild. In this case, the non-qualifying beneficiary's interest is insured as the owner's individually-owned funds.

--The second is "**Living**" or "**Family**" trusts, which, due to defeating contingencies within the trust document, rarely qualify for separate insurance.

Sometimes, part of an account will qualify for separate coverage and another part will fail to meet the requirements and, as a result, will be insured as if that portion of the funds was individually owned.

JOINT OWNERSHIP ACCOUNTS

Now we'll discuss **joint ownership accounts** and the two-step calculation of deposit insurance that always applies when customers hold multiple joint accounts with different combinations of owners. The FDIC's deposit insurance rules specify three requirements that must be met for an account to qualify for separate coverage as a joint account. If all three conditions are satisfied, the insurance coverage is separate from any accounts that are insured in the other account ownership categories. Separate coverage means that the insurance provided for a joint account is in addition to coverage provided for one co-owner's single ownership account or trust funds held in the same institution.

Let me give a quick example: If Lucy had an account in her name alone in any FDIC-insured institution, it is insured up to \$100,000. In the same institution, Lucy and her husband could have a joint ownership account insured up to \$100,000 -- for a total of \$200,000 in this one institution. But, if their joint account failed to meet one of the requirements for separate coverage as a joint account, it would, instead, be insured as each owner's individually owned funds. If Lucy's husband had no other individually owned funds at the same institution, his half of the non-qualifying joint account would be insured; but Lucy does have an account in her name alone, so her half of the failed joint account would be uninsured.

Now, let's see what the three requirements are for separate coverage as a joint account:

- First, a joint account must be held in the names of two or more natural persons - -meaning not corporations or other legal entities.

- Second, each co-owner must personally sign a deposit account signature card unless the account is a CD, a negotiable instrument or an account set up by an agent or nominee.
- The third requirement is that each owner must be able to withdraw on the same basis. If one co-owner can withdraw on only her signature while another co-owner requires two signatures, that would be unequal -- and the account would not qualify for separate coverage as a joint account.

A question you might ask at this point is: Should the title be "Jean and Don" or "Jean or Don"? Whether the co-owners' names are joined by "and" or "or" doesn't affect deposit insurance unless both terms are used in the same account title to indicate unequal withdrawal rights. For instance, if the title "Jean and Don or Ruth" means to our institution that Jean, Don and Ruth have different withdrawal conditions, their account would fail to meet the requirements for joint account coverage.

Another common question: Should the social security number of the first person named in the title be reported to IRS? The social security number reported for a deposit account doesn't affect the deposit insurance coverage of the account. A joint account -- by definition -- has two or more co-owners, but IRS allows only one social security number to be reported for each account, so the tax reporting number is never an accurate guide to joint account ownership.

A joint tenancy with right of survivorship is the most common type of joint ownership. It allows each co-owner to withdraw funds, and the account will belong to the surviving owner or owners upon the death of any joint tenant. The FDIC will presume that a joint account is a joint tenancy with right of survivorship unless the deposit account records of the institution state otherwise.

Tenants by the entirety own joint accounts in much the same manner but must be a husband and wife. Upon the death of one, the funds belong to the survivor.

Another type of joint ownership is a tenancy in common. Tenants in common may have unequal ownership in an account that is under their joint control. Each co-owner's percentage of ownership is usually based on the amount that owner originally contributed to the account. If the deposit account records don't specify the percentage owned by each, the regulations say that it will be calculated as equal ownership. If one owner of a tenancy in common account dies, the amount he owned doesn't pass to the surviving owner but, instead, becomes part of his estate.

A **community property account** can be another type of joint ownership if the account is titled in both spouses' names. There are eight states that have community property laws. Upon the death of one spouse, half of the community property belongs to the survivor and the other half belongs to the deceased spouse's estate. Be aware that an account titled in only one spouse's name will be insured as that person's individually-owned account even if the account contains community property funds.

Now, let's talk a bit about what happens when a joint account fails to qualify for separate joint ownership coverage. Then we'll calculate insurance of some qualified joint accounts. The FDIC will presume that deposited funds are actually owned in the manner indicated in our deposit account records, so long as the records are clear and not ambiguous. For this purpose of determining insurance, the FDIC considers our deposit account records as including account ledgers, signature cards, certificates of deposit, passbooks and certain computer records -- if each of these types of records are actually maintained in the institution rather than in the account holder's possession.

If the FDIC has reason to believe that actual ownership is misrepresented in the institution's records, the FDIC may consider all other available evidence in determining

insurance coverage. This means that our records must be absolutely accurate for our customers' protection. Whenever you change an account styling, either at rollover or another time, you must be very thorough in making the change on all of our records.

Review of Joint Account Example -- Refer to Joint Account Overheads

REVOCABLE TRUST ACCOUNTS

Now, let's look at a third separately insured category, the **revocable trust** category, which provides separate coverage for **payable-on-death** and other revocable trust accounts if certain requirements are met:

- First, the terms "Payable-on-Death", "As Trustee For", or "In Trust For" or something similar (or their acronyms) must be used in the account title to show that upon death of the owner, the account will belong to a named beneficiary. If the account is based on a written trust document, a title as simple as "Jones Family Trust" or "Jones Trust" may be used.
- Second, the beneficiary must be the owner's spouse, child or grandchild; and
- Third, the beneficiary(ies) must be listed by name in the institution's deposit account records.

If these three requirements are satisfied, a depositor could hold funds in a revocable trust account that would be insured up to \$100,000 for each spouse, child or grandchild named as a beneficiary. If, for example, a woman names her husband and two children, she could have \$300,000 in a single revocable trust account that is fully insured separately from the \$100,000 she has insured in her single name accounts at the same institution. Similarly, she can have another \$100,000 in her joint ownership accounts with her husband. We can see from the calculation that she and her husband could deposit \$600,000 into a payable-on-death account co-owned by the two of them in trust for their three named children.

What if one of our depositors names her mom as her beneficiary? Since one requirement for a revocable trust account to be separately insured is that the beneficiary must be her spouse, child or grandchild, an account held for her mom's benefit would not qualify for separate coverage as a revocable trust account. Instead, it would be treated as if it is the depositor's single ownership account and it is added with any other single ownership accounts she holds at the same institution, and the total amount insured up to \$100,000.

A living trust, also known as an "inter vivos" trust, requires special review to determine whether it qualifies for insurance coverage under the revocable trust category. Although an account established pursuant to a living trust can sometimes be insured as a testamentary account, all of the qualifying requirements must be met. Living trusts usually fail to meet the requirement that the funds belong to the named beneficiary upon the death of the grantor, and thus fail to qualify for coverage under the revocable trust account category.

Evaluation of whether a living trust meets the requirements for insurance as a testamentary account is a complex matter that generally will require the assistance of legal counsel. Depositors with questions about insurance coverage of their living trusts should be encouraged to consult their attorney for advice. The FDIC has a set of interpretive guidelines that institution staff can request to assist in evaluating a trust.

When a revocable living trust fails to meet the special requirements for separate insurance coverage of testamentary funds, the trust funds are insured as the single ownership funds of the grantor(s). Consequently, funds deposited under the provisions of a revocable living trust will be added to any other single ownership funds of the grantor and the total will be insured up to \$100,000.

CORPORATE, PARTNERSHIP & UNINCORPORATED ASSOCIATION FUNDS

The funds of a corporation, partnership or unincorporated association engaged in any **"independent activity"** are added together and insured up to a total of \$100,000, including principal and any earned interest. Independent activity means that the entity is operated primarily for some purpose other than to increase deposit insurance.

Corporations must be separately incorporated to receive separate insurance coverage. If a corporation has divisions that are not separately incorporated, funds deposited by those divisions are not separately insured even if the deposit accounts are designated for different purposes. All funds deposited in the same institution and owned by the same corporation are added together and insured up to \$100,000.

Corporate stockholders, officers, employees and other employee benefit plan participants can hold their personal deposits at the same depository institution where the corporate funds are deposited. The personal funds will be insured according to the "right and capacity" in which they are held.

Insurance coverage of the funds owned by a **partnership** is separate from insurance provided for personal funds of individual partners. All funds deposited in the same institution and owned by the same partnership are added together and insured up to \$100,000. Funds owned by a partnership that are merely designated for different purposes are not separately insured.

Funds held by **unincorporated associations** are insured separately from personal funds of their members, so long as the independent activity requirement is met. As with corporate and partnership accounts, all funds held by the unincorporated association, even if designated for different uses, are aggregated and insured up to \$100,000 total.

IRREVOCABLE TRUST FUNDS

Irrevocable trust funds are established pursuant to an irrevocable trust, such as a will or another written instrument, by which the settlor (grantor) contributes funds and/or property without retaining the power to revoke the trust.

There are several requirements that must be met in order for trust funds to qualify for insurance under the FDIC's irrevocable trust account category. The "non-contingent" ownership interest of each beneficiary in an irrevocable trust account is insured up to \$100,000, separately from any other accounts held by the settlor, trustee or any beneficiary at the same depository institution if three conditions are met:

- The trust agreement must be valid under state law.
- The existence of the trust relationship must be disclosed in the deposit account records of the institution, preferably in the account title.
- The identity of each beneficiary and the value of the beneficiary's ownership interest must be ascertainable from the records of the trustee or of the institution.

Contingent Trust Interests

If the identity or ownership interests of the beneficiaries cannot be determined without evaluation of contingencies other than life expectancy, insurance coverage is limited to \$100,000 (including interest earned on the account) for all such non-contingent interests in the applicable trust.

EMPLOYEE BENEFIT PLAN FUNDS**"Pass-Through" Insurance Coverage**

The insurance coverage for retirement and other employee benefit plan accounts is based upon the capital level of the insured bank or thrift where the deposits are made. Deposits of retirement and employee benefit plans (including so-called "section 457" plans, a type of deferred compensation plan account for employees of state and local governments and non-profit organizations) are generally insured up to \$100,000 per participant's "non-contingent" interest in the plan, if the FDIC recordkeeping requirements are satisfied. **The short-hand expression is that the insurance "passes through" to each participant who has an interest in the plan deposits.**

In order for "pass-through" coverage to be provided, the insured institution must be able to accept "brokered deposits" under section 29 of the Federal Deposit Insurance Act. In order to accept brokered deposits, the institution must meet certain capital requirements at the time the employee benefit plan deposits are accepted. An institution may **ONLY** accept brokered deposits if the institution is "well-capitalized" or if it is "adequately capitalized" and has obtained a waiver from the FDIC to accept brokered deposits.

There is one other way in which insurance can be provided in the amount of up to \$100,000 per plan participant's interest, instead of \$100,000 per plan. If an institution

is adequately capitalized, but does not have a waiver to accept brokered deposits, and the depositor obtains a written notice from the institution AT THE TIME THAT A DEPOSIT IS MADE into an employee benefit plan, then pass-through insurance coverage will be provided FOR THAT DEPOSIT. In that situation, an employee benefit plan deposit would be entitled to per-participant insurance coverage.

Assuming that an employee benefit plan account is entitled to "pass-through" coverage, any interests of the same participant in any other employee benefit plan established by the same employer or employee organizations (e.g., a union) and deposited in the same institution is aggregated for insurance purposes.

Employees' interests that are not capable of determination will be insured up to a maximum of \$100,000. This insurance coverage applies, for example, to funds deposited by many health and welfare plans.

Recordkeeping requirements are as follows:

- The deposit account records of the depository institution must expressly disclose that the funds are those of an employee benefit plan.
- The account holder must maintain records that disclose the identities and interests of plan participants.

"Non-contingent Interests"

The term "non-contingent interest" means an interest capable of determination without evaluation of contingencies except for those covered by the present worth tables and the calculation methods published by the IRS.

For insurance purposes, it does not matter whether the funds are derived from employee contributions made on a before-tax or after-tax basis, employer

contributions, or rollover contributions. In addition, the participants in a plan are considered to be fully vested when interests in a plan are being calculated.

DISCLOSURE RULES FOR EMPLOYEE BENEFIT PLAN ACCOUNTS

Institutions must disclose certain capital information to existing and prospective employee benefit plan administrators/depositors. The disclosures do not alter the existing deposit insurance coverage. Rather, the disclosures are designed to reduce depositor uncertainty about whether their plan's deposits are eligible for pass-through coverage, and alert benefit plan depositors when pass-through coverage is no longer available. The disclosure rules became effective on July 1, 1995

The depositor of an existing employee benefit plan account may request a written statement from an insured institution indicating: the institution's Prompt Corrective Action (PCA) category; various capital ratios; and a statement of whether, in the institution's judgment, the employee benefit plan account deposits qualify for pass-through insurance coverage.

Similarly, when an employee benefit plan account that might be eligible for pass-through insurance coverage is opened, the insured institution must provide written disclosure of the institution's PCA category; various capital ratios; and a statement of whether, in the institution's judgment, the employee benefit plan account deposits would qualify for pass-through insurance coverage.

Within ten business days of when new, renewed, or rolled-over employee benefit plan deposits are no longer eligible for pass-through insurance due to a change in the institution's PCA rating, the institution must send a written statement to all affected depositors indicating the new PCA rating, and including a notice that any new, renewed, or rolled-over employee benefit plan accounts will not qualify for pass-

through insurance. Accounts that qualified for pass-through insurance when they were opened continue to be eligible until they mature. Insurance coverage on funds added to these accounts, however, will be based on the PCA rating of the institution on the date of the additional deposit. PCA ratings can only change once a quarter.

AGGREGATION OF CERTAIN RETIREMENT ACCOUNTS

As of December 19, 1993, a depositor's interests in Individual Retirement Accounts (IRAs) and self-directed Keogh plans in the same insured institution are aggregated when determining deposit insurance coverage. In addition, the same depositor's interest in "457 plan" accounts and other self-directed defined contribution plan accounts are added to the depositor's aggregated IRA and Keogh funds held at the same institution. The total of all these retirement funds are insured to a maximum of \$100,000.

Please note, however, that these aggregation rules apply only to funds deposited in such accounts after December 19, 1993. There is a "grandfather provision" for deposits made before the December 19, 1993, effective date.

PUBLIC UNIT FUNDS

Public unit funds are those owned by cities, counties, states, or other government entities. Each official custodian of time, savings, and interest-bearing NOW accounts is insured up to \$100,000 at each federally insured institution. In addition, demand deposits maintained in the same state as the public unit are separately insured to \$100,000.

If a public unit has political subdivisions, the funds of each subdivision will be separately insured if each subdivision:

- was created under express authorization of state law,
- has some functions of government delegated to it by law, and
- is empowered to exercise exclusive control over funds for its exclusive use.

One person may serve as official custodian of the funds of many public units (e.g., contract tax collector). Also, a public unit may be served by two or more official custodians, all of whom qualify for separate insurance coverage of the funds in their custody.

The deposit insurance available to a public unit cannot be increased by fragmenting authority or control over that unit's funds among several official custodians or by merely designating portions of the public unit's funds for separate purposes.

Similarly, if the exercise of authority or control over the funds of a public unit requires action by or the consent of two or more "custodians," they will be treated as one official custodian for the purpose of calculating deposit insurance.

Conclusion

As you can see, it is very possible for a depositor to hold funds in a single institution that are insured for far more than \$100,000, but very specific requirements must be met to qualify for separate insurance coverage based on the different ownership capacities of the funds.

Insurance coverage is not affected by the types of deposit instruments the funds are in -- such as checking, passbook savings, money-market deposits, or CDs -- except in the case of public unit funds. In all other ownership categories, using different types of account instruments will not qualify accounts owned in the same right and capacity for separate insurance.

Also, separate insurance coverage is not determined by social security or tax identification numbers. Instead, the key to determining insurance coverage is to decide the legal ownership category of the funds and then calculate the amount of coverage provided for that category by the deposit insurance regulations.

AT THIS TIME IT WOULD BE APPROPRIATE TO GIVE THE STUDENTS COPIES OF THE WORKSHEETS AND QUIZZES TO COMPLETE. THESE MATERIALS CAN BE FOUND AT THE END OF THIS GUIDE, AND INCLUDE AN INSTRUCTOR'S VERSION THAT HAS THE CORRECT ANSWERS

FEDERAL DEPOSIT INSURANCE

GENERAL RULES

- **"Rights & Capacities" = Actual Ownership**
- **Insurance Coverage is Per Bank, NOT Per Branch**
- **\$100,000 Limit = Principal and Interest**

FEDERAL DEPOSIT INSURANCE

GENERAL RULES

- **Merging Institutions -- 6-Month Rule &
Time Deposit Exception**
- **"Deposit Account Records" = Bank Records
& NOT Customer Records**
- **Fiduciary Accounts -- Express Disclosure in
Bank Deposit Account Records**

Insurance Coverage For Single Ownership Funds

Single ownership accounts:

- **Established by or for the same person**
- **Added together and insured to \$100,000**

Single Ownership

An account owned by one person. This includes:

- **Individual Accounts**
- **Sole Proprietorship Accounts**
- **Community Property Funds (held in one name)**
- **Decedent and Decedent Estate Accounts**
- **Mortgage Servicing Tax and Insurance Premium Funds (T&I accounts)**
- **Agent, Nominee, Guardian, Custodian, or Conservator Accounts Held For Individuals**

Single Ownership Insurance Summary

<u>Depositor</u>	<u>Type of Account</u>	<u>Amount</u>
A	Savings	\$ 25,000
A	CD	\$100,000
A	NOW	\$ 25,000
A, as sole Proprietor	Checking	\$ 25,000
Total on Deposit		\$175,000
Maximum Insured		\$100,000
Uninsured		\$ 75,000

"CONVENIENCE ACCOUNTS"

- **INDIVIDUAL OR JOINT?**
- **JOINT UNLESS:**
 - **WITHDRAWALS BY NON-OWNER
MADE PURSUANT TO VALID
"POWER OF ATTORNEY"**

OR

- **DEPOSIT ACCOUNT RECORDS
CLEARLY INDICATE THAT
FUNDS ARE OWNED BY ONE
PERSON AND THAT THE OTHER
SIGNATORY IS ACTING ONLY ON
BEHALF OF OWNER**

INSURANCE COVERAGE FOR JOINT OWNERSHIP FUNDS

- **No one joint account can be insured for over \$100,000**
- **Multiple joint accounts with the same combination of owners are limited to \$100,000 coverage total.**
- **Changing SSNs and/or the order of names does not increase this limit.**
- **No individual can be insured for more than \$100,000 in the joint ownership account category**

JOINT ACCOUNT EXAMPLE

Three qualifying joint accounts are owned by A, B and C:

Account	Owners	Balance
#1	A & B	\$100,000
#2	B or A	25,000
#3	A & B & C	75,000
		<u>\$200,000</u>

Step 1:

A & B Combination

Account #1 (A & B)	\$100,000
Account #2 (B or A)	<u>25,000</u>
Total Deposited	<u>\$125,000</u>

Step one insurable limit is \$100,000, so \$25,000 is uninsured.

A & B & C Combination

Account #3 (A & B & C) \$75,000

Step one insurable limit is \$100,000.

Step 2:

A's Ownership Interest (Also depicts B's interest)

1/2 of insurable balance in Accounts #1 & #2	\$50,000
--	----------

1/3 of insurable balance in Account #3	\$25,000
--	----------

Total of A's insurable funds:	<u>\$75,000</u>
-------------------------------	-----------------

C's Ownership Interest

1/3 of insurable balance in Account #3	\$25,000
--	----------

Total of C's insured funds:	<u>\$25,000</u>
-----------------------------	-----------------

Summary of Insurance Coverage

	<u>Insured</u>	<u>Uninsured</u>
A	\$ 75,000	\$12,500
B	75,000	12,500
C	<u>25,000</u>	<u>0</u>
TOTAL	<u>\$175,000</u>	<u>\$25,000</u>

JOINT ACCOUNT RULES

Separately Insured if:

- **All co-owners are natural persons**
- **Each co-owner personally signs the signature card**

EXEMPTIONS:

**Certificate of Deposit
Negotiable Instruments
Funds maintained by an
agent, nominee, guardian,
custodian or conservator**

- **All co-owners have equal rights of withdrawal**

REVOCABLE TRUST ACCOUNT INSURANCE COVERAGE

- **\$100,000 separate insurance**
- **per owner/settlor**
- **per qualifying beneficiary**

RULES FOR TESTAMENTARY REVOCABLE TRUST ACCOUNT COVERAGE

- **Funds belong to beneficiaries on death of owner**
- **Testamentary intention must be stated in account TITLE:**
 - In Trust For or "ITF"**
 - Payable on Death or "POD"**
 - As Trustee For or "ATF"**
- **Relationship Requirement:**
Spouse, Child or Grandchild
(Adopted & Step children/grandchildren)
- **Beneficiaries must be specifically NAMED in deposit account records**

REVOCABLE TESTAMENTARY TRUST EXAMPLES

Example 1

"Husband & Wife ITF Child 1, Child 2, & Child 3"**

COVERAGE:	<u>H</u>	<u>W</u>
C ₁	\$100,000	\$100,000
C ₂	\$100,000	\$100,000
C ₃	\$100,000	\$100,000
TOTAL	<u>\$300,000</u>	<u>\$300,000</u>
COMBINED MAXIMUM COVERAGE	<u>\$600,000</u>	

** Funds can be in one account or several accounts

Example 2

"H ITF W" and "W ITF H" (two separate accounts)

EACH account can be insured as REVOCABLE TRUST funds to \$100,000 for a total of \$200,000 Insurance Coverage

IMPORTANT:

H&W "ITF" H&W (one account)

- **NOT POD ACCOUNT**
- **Insured as a JOINT ACCOUNT (up to \$100,000, depending on other joint accounts held at same institution)**

LIVING TRUST DEPOSIT ACCOUNTS

- **Governed by written trust document (unlike one-line POD accounts)**
- **For separate and maximum coverage, must meet -**

A. Recordkeeping requirements of account -

- 1) proper account title**
- 2) beneficiaries listed by name in deposit account records**

AND

B. Substantive requirements of underlying trust -

- 1) upon death of last settlor, beneficiary must have "vested interest" (Guidelines, p. 5)**
- 2) beneficiary must be "qualifying" (spouse, child or grandchild of settlor -- child or grandchild may be natural, adopted or step-)**

AGENCY OR CUSTODIAL ACCOUNTS

- **OWNER OF FUNDS = INSURED PARTY**
- **NO SEPARATE INSURANCE:**
- **FUNDS ARE AGGREGATED WITH FUNDS IN OTHER OWNERSHIP CATEGORIES (E.G. INDIVIDUAL OR JOINT ACCOUNTS)**
- **RECORDKEEPING OF FIDUCIARY IS CRITICAL**

EXAMPLE OF AGENCY/CUSTODIAL ACCOUNT COVERAGE

A = AGENT FOR P_1 , P_2 , AND P_3

ACCOUNT

AMOUNT

**1. A FOR P_1 , P_2 , AND P_3
\$300,000
(As individuals)**

2. P_1 (INDIVIDUAL) \$100,000

3. P_2 (INDIVIDUAL) \$100,000

4. P_3 (INDIVIDUAL) \$100,000

5. P_1 AND P_2 (JOINT) \$100,000

RESULTS:

	<u>INSURED</u>	<u>UNINSURED</u>
P_1	\$100,000	\$100,000
P_2	\$100,000	\$100,000
P_3	\$100,000	\$100,000
P_1 AND P_2	\$100,000	-----

Corporation, Partnership & Unincorporated Association Accounts

- **Insured to \$100,000, separately from funds of owners/officers, members, if "independent activity" requirement is met**
- **Independent activity: entity has a purpose other than to increase deposit insurance**

PUBLIC UNIT ACCOUNT COVERAGE

A "political subdivision" of a public unit qualifies for separate deposit insurance if:

- **Expressly authorized by the law of the public unit**
- **Functions of government have been delegated by law**
- **Can exercise exclusive control over funds for its exclusive use.**

If the institution is located in the same state as the public unit, each official custodian is separately insured to:

- **\$100,000 for all time, savings and NOW deposits**

and

- **\$100,000 for all demand deposits**

If in a different state, each official custodian is separately insured to:

- **\$100,000 for all funds, including time, savings, NOW, and demand deposits**

Each Official Custodian must have plenary authority, including control, over funds owned by the public unit.

Control includes possession and authority to:

- 1) Establish accounts and**
- 2) Make deposits, withdrawals and disbursements.**

NEW PASS-THROUGH DISCLOSURE REQUIREMENTS FOR EMPLOYEE BENEFIT PLAN DEPOSITS

I. WRITTEN DISCLOSURE OF CAPITAL STATUS REQUIRED:

- **WITHIN FIVE DAYS OF DEPOSITOR
REQUEST**
- **UPON OPENING A NEW ACCOUNT**
- **WITHIN 10 DAYS OF WHEN PASS-THROUGH
COVERAGE CEASES**

II. DISCLOSURE MUST INCLUDE :

- **PCA CAPITAL CATEGORY**
- **WHETHER PASS-THROUGH WOULD BE
AVAILABLE**
- **CAPITAL RATIOS (REQUESTS ONLY)**
- **EXPLANATION OF PASS-THROUGH
REQUIREMENTS
(NEW ACCOUNTS ONLY)**

RETIREMENT AND OTHER EMPLOYEE BENEFIT PLAN ACCOUNTS

PASS-THROUGH INSURANCE

- **INSURANCE "PASSES THROUGH" TO EACH PARTICIPANT IF AT TIME DEPOSIT IS ACCEPTED:**

- **INSTITUTION IS WELL-CAPITALIZED**

OR

- **INSTITUTION ADEQUATELY-CAPITALIZED WITH:**

- **BROKERED DEPOSIT WAIVER**

OR

- **SELF-CERTIFICATION STATEMENT FROM THE INSTITUTION THAT STATES:**

1. THE INSTITUTION IS ADEQUATELY CAPITALIZED, AND

2. PASS-THROUGH INSURANCE IS PROVIDED

RETIREMENT AND OTHER EMPLOYEE BENEFIT PLAN ACCOUNTS

**INSURED UP TO \$100,000 PER
INSTITUTION FOR THE FOLLOWING,
COMBINED:**

- **ALL OF AN EMPLOYEE'S INTERESTS IN
SAME EMPLOYER'S PLANS**
- **ALL OF AN EMPLOYEE'S INTERESTS IN:**

A) IRAs

B) SELF-DIRECTED KEOGHS

C) 457 PLANS

**D) SELF-DIRECTED DEFINED
CONTRIBUTIONS PLANS**

IRREVOCABLE TRUST DEPOSIT INSURANCE COVERAGE

- **EACH BENEFICIARY'S INTEREST OR "TRUST INTEREST" IS SEPARATELY INSURED**
- **ALL NON-CONTINGENT TRUST INTERESTS FOR EACH BENEFICIARY IS INSURED TO A MAXIMUM OF \$100,000 PER GRANTOR**
- **ALL "CONTINGENT" INTERESTS ARE AGGREGATED AND INSURED TO \$100,000 PER TRUST**

IRREVOCABLE TRUST REQUIREMENTS

- **DISCLOSURE OF THE TRUST
RELATIONSHIP IN THE ACCOUNT
TITLE**
- **VALID WRITTEN TRUST
DOCUMENT OR STATUTE**
- **IDENTITY OF THE BENEFICIARIES
AND THEIR INTERESTS**

ACCOUNTS HELD BY A DEPOSITORY INSTITUTION AS TRUSTEE OF AN IRREVOCABLE TRUST

**FUNDS INSURED UP TO \$100,000 FOR
EACH OWNER OR BENEFICIARY
REPRESENTED IF AND ONLY IF:**

- **BANK IS TRUSTEE**
- **TRUST IS IRREVOCABLE**
- **PURSUANT TO WRITTEN TRUST
AGREEMENT OR STATUTE.**

JOINT ACCOUNT WORKSHEET #1

Each party in the following joint accounts has equal withdrawal rights and the accounts qualify as valid joint accounts for insurance purposes. Calculate the insurance coverage available assuming that these are the ONLY joint accounts these parties have at one institution.

<u>Account Title</u>	<u>Account Balance</u>
1. John and Beth Blevins	\$ 60,000
2. Elizabeth or J. L. Blevins	30,000
3. Mr. and Mrs. John Blevins	25,000
4. Beth Blevins or John Blevins	<u>10,000</u>
TOTAL	<u>\$125,000</u>

Step One:

Add all accounts owned by the Blevins.

1. _____
2. _____
3. _____
4. _____
TOTAL _____ Insured in Step 1: \$ _____
Uninsured in Step 1: \$ _____

Step Two:

Calculate each person's attributable interest in the joint account category.

John Blevins [1/2 of insured balance from Step One] \$ _____
Beth Blevins [1/2 of insured balance from Step One] \$ _____

Insurance Summary:

	Insured	Uninsured
John Blevins	_____	_____ (1/2 of uninsured from Step One)
Beth Blevins	_____	_____ (1/2 of uninsured from Step One)
TOTAL	_____	_____

JOINT ACCOUNT WORKSHEET #1 (ANSWERS)

Each party in the following joint accounts has equal withdrawal rights and the accounts qualify as valid joint accounts for insurance purposes. Calculate the insurance coverage available assuming that these are the ONLY joint accounts these parties have at one institution.

<u>Account Title</u>	<u>Account Balance</u>
1. John and Beth Blevins	\$60,000
2. Elizabeth or J. L. Blevins	30,000
3. Mr. and Mrs. John Blevins	25,000
4. Beth Blevins or John Blevins	<u>10,000</u>
 TOTAL	 <u>\$125,000</u>

Step One:

Add all accounts owned by the Blevins.

1. 60,000
2. 30,000
3. 25,000
4. 10,000
TOTAL \$125,000

Insured in Step 1: \$ 100,000

Uninsured in Step 1: \$ 25,000

Step Two:

Calculate each person's attributable interest in the joint account category.

John Blevins [1/2 of insured balance from Step One] \$ 50,000
Beth Blevins [1/2 of insured balance from Step One] \$ 50,000

Insurance Summary:

	Insured	Uninsured	
John Blevins	<u>50,000</u>	<u>12,500</u>	(1/2 of uninsured from Step One)
Beth Blevins	<u>50,000</u>	<u>12,500</u>	(1/2 of uninsured from Step One)
 TOTAL	 <u>100,000</u>	 <u>25,000</u>	

JOINT ACCOUNT WORKSHEET #2

Each party in the following joint accounts has equal withdrawal rights; the accounts are qualified joint accounts for insurance purposes. Calculate the insurance coverage assuming that these are the ONLY joint accounts these parties have at one institution.

<u>Account Title</u>	<u>Account Balance</u>
1. A and B	\$ 150,000
2. A or C	\$ 50,000
3. A, B, & C	\$ 90,000
4. C and A	\$ 70,000
5. B or C	\$ <u>8,000</u>
TOTAL	\$ 368,000

Step One: Add all accounts owned by the same combination of owners.

A & B Combination	A & C Combination	A, B, & C Combination	B & C Combination
TOTAL: \$ _____	TOTAL: \$ _____	TOTAL: \$ _____	TOTAL: \$ _____
Insured Step 1: _____	Insured Step 1: _____	Insured Step 1: _____	Insured Step 1: _____
Unins. Step 1: _____	Unins. Step 1: _____	Unins. Step 1: _____	Unins. Step 1: _____

Step Two:

Add each person's attributable interest in each joint account combination.

NOTE: Do NOT include step one uninsured dollars in these calculations.

A's Interest:	B's Interest:	C's Interest:
TOTAL: _____	TOTAL: _____	TOTAL: _____
Insured Step 2: _____	Insured Step 2: _____	Insured Step 2: _____
Unins. Step 2: _____	Unins. Step 2: _____	Unins. Step 2: _____

Insurance Summary:

(Uninsured column should include the total uninsured dollars allocated to each person from Steps 1 and 2)

	Insured	Uninsured
A	_____	_____
B	_____	_____
C	_____	_____
Total	_____ +	_____ = 368,000

JOINT ACCOUNT WORKSHEET #2 (ANSWERS)

Each party in the following joint accounts has equal withdrawal rights; the accounts are qualified joint accounts for insurance purposes. Calculate the insurance coverage assuming that these are the ONLY joint accounts these parties have at one institution.

<u>Account Title</u>	<u>Account Balance</u>
1. A and B	\$ 150,000
2. A or C	50,000
3. A, B, & C	90,000
4. C and A	70,000
5. B or C	<u>8,000</u>
TOTAL	\$ 368,000

Step One: Add all accounts owned by the same combination of owners.

A & B Combination	A & C Combination	A, B, & C Combination	B & C Combination
Acct.1: 150,000	Acct.2: 50,000 Acct.4: 70,000	Acct. 3: 90,000	Acct. 5: 8,000
TOTAL: \$ <u>150,000</u>	TOTAL: \$ <u>120,000</u>	TOTAL: \$ <u>90,000</u>	TOTAL: \$ <u>8,000</u>
Insured Step 1: <u>100,000</u>	Insured Step 1: <u>100,000</u>	Insured Step 1: <u>90,000</u>	Insured Step 1: <u>8,000</u>
Unins. Step 1: <u>50,000</u>	Unins. Step 1: <u>20,000</u>	Unins. Step 1: <u>-0-</u>	Unins. Step 1: <u>-0-</u>

Step Two:

Add each person's attributable interest in each joint account combination.

NOTE: Do NOT include step one uninsured dollars in these calculations.

A's Interest:

A&B	50,000
A&C	50,000
A,B&C	30,000
TOTAL:	<u>130,000</u>

B's Interest:

A & B	50,000
A,B&C	30,000
B & C	4,000
TOTAL:	<u>4,000</u>

C's Interest:

A & C	50,000
A,B&C	30,000
B & C	4,000
TOTAL:	<u>84,000</u>

Ins Step 2:	<u>100,000</u>
Unins. Step 2:	<u>30,000</u>

Ins Step 2:	<u>84,000</u>
Unins. Step 2:	<u>-0-</u>

Ins Step 2:	<u>84,000</u>
Unins. Step 2:	<u>-0-</u>

Insurance Summary:

(Uninsured column should include the total uninsured dollars allocated to each person from Steps 1 and 2)

	<u>Insured</u>	<u>Uninsured</u>	
A	<u>100,000</u>	<u>65,000</u>	(25,000 + 10,000 + 30,000)
B	<u>84,000</u>	<u>25,000</u>	(25,000)
C	<u>84,000</u>	<u>10,000</u>	(10,000)
Total	<u>268,000</u>	<u>100,000</u>	= 368,000

WORKSHEET #3

Assume that the titles listed below depict consistent ownership with computer titles, signature cards etc.; assume that the joint accounts are valid joint accounts for insurance purposes. Calculate the insurance coverage available assuming that these are the ONLY accounts these parties have at one institution.

<u>Account Title</u>	<u>Account Balance</u>
1. Barbie	\$ 40,000
2. Ken and Barbie	98,000
3. Barbie	80,000
4. Barbie and Skipper	10,000
5. Barbie and Ken	<u>30,000</u>
TOTAL	<u>\$258,000</u>

Analyze and Calculate total insurance coverage:

TOTAL INSURED:

TOTAL UNINSURED:

**WORKSHEET #3
(ANSWERS)**

Assume that the titles listed below depict consistent ownership with computer titles, signature cards etc.; assume that the joint accounts are valid joint accounts for insurance purposes. Calculate the insurance coverage available assuming that these are the ONLY accounts these parties have at one institution.

<u>Account Title</u>	<u>Account Balance</u>
1. Barbie	\$40,000
2. Ken and Barbie	98,000
3. Barbie	80,000
4. Barbie and Skipper	10,000
5. Barbie and Ken	<u>30,000</u>
TOTAL	<u>\$258,000</u>

Analysis & Calculations:

Single Ownership (Accounts 1 and 3)

Barbie (Account 1)	\$ 40,000
(Account 3)	<u>\$ 80,000</u>
	\$120,000

Barbie's single ownership uninsured = \$20,000

Joint Ownership (Accounts 2, 4, and 5)

Step One:

Ken & Barbie Combination		Barbie & Skipper Combination	
Account 2:	98,000	Account 4:	10,000
Account 5:	<u>30,000</u>		
	\$128,000		

**\$28,000 uninsured in STEP ONE on
Ken and Barbie combination**

Step Two:

Barbie's interest in all joint combinations: $50,000 + 5,000 = \$55,000$

Ken's interest in all joint combinations: 50,000

Skipper's interest in all joint combinations: 5,000

No additional uninsured in the second step of the calculation

GROUP TOTALS: \$48,000 uninsured and \$210,000 insured.

**FINAL EXAM QUESTIONS
ON
FEDERAL DEPOSIT INSURANCE COVERAGE**

Q: Deposit insurance coverage is determined by:

- A) Number of names in account title
- B) \$100,000 limit per account
- C) Ownership rights and capacities
- D) Social Security number (TIN)

Q: Single ownership coverage applies to all except:

- A) Community property funds held in one name
- B) Mortgage Servicing T&I accounts
- C) H&W ITF H&W
- D) Decedent's accounts
- E) Revocable trust funds held for the benefit of a parent

Q: Funds owned by a sole proprietorship will be separately insured from the single ownership funds of the sole proprietor if:

- A) The two types of funds are in separate accounts with different titles
- B) The ownership of the two types of funds is disclosed on the records of the depository institution
- C) Mom and Pop are both authorized signers on the business account, but only Pop signs on the account held in his name
- D) The two types of funds are in different depository institutions.

Final Exam, Cont.

Q: The maximum deposit insurance coverage of a “Totten” trust account entitled “Husband & Wife ITF Wife, 3 children, and 1 adopted grandchild is:

- A) \$800,000
- B) \$900,000
- C) \$400,000 plus earned interest
- D) \$700,000 plus interest accrued through the date of default

Q: Public unit funds of a political subdivision are separately insured if:

- A) Its creation was expressly authorized by the law of the public unit
- B) Some functions of government have been delegated by law
- C) It can exercise exclusive control over funds for its exclusive use
- D) All of the Above

**Answers to
FINAL EXAM QUESTIONS
ON
FEDERAL DEPOSIT INSURANCE COVERAGE**

Q: Deposit insurance coverage is determined by:

- A) Number of names in account title
- B) \$100,000 limit per account
- **C) Ownership rights and capacities**
- D) Social Security number (TIN)

Q: Single ownership coverage applies to all except:

- A) Community property funds held in one name
- B) Mortgage Servicing T&I accounts
- **C) H&W ITF H&W**
- D) Decedent's accounts
- E) Revocable trust funds held for the benefit of a parent

Q: Funds owned by a sole proprietorship will be separately insured from the single ownership funds of the sole proprietor if:

- A) The two types of funds are in separate accounts with different titles
- B) The ownership of the two types of funds is disclosed on the records of the depository institution
- C) Mom and Pop are both authorized signers on the business account, but only Pop signs on the account held in his name
- **D) The two types of funds are in different depository institutions.**

Final Exam, Cont.

Q: The maximum deposit insurance coverage of a “Totten” trust account entitled “Husband & Wife ITF Wife, 3 children, and 1 adopted grandchild is:

A) \$800,000

****B) \$900,000**

C) \$400,000 plus earned interest

D) \$700,000 plus interest accrued through the date of default

Q: Public unit funds of a political subdivision are separately insured if:

A) Its creation was expressly authorized by the law of the public unit

B) Some functions of government have been delegated by law

C) It can exercise exclusive control over funds for its exclusive use

****D) All of the Above**

Non-Deposit Investment Product Seminar Overheads

Federal Deposit Insurance Corporation

Insurable:

Checking

Savings

CDS

Money Market Deposit Accounts

**Principal and Interest (P&I)
payments into Accounts**

Retirement Accounts

Retirement CDS

UNINSURED:

Safe Deposit Box Contents

Securities

Annuities

Bonds

Treasury Securities(T-bills, etc)

Money Market Mutual Funds

Benefit Responsive BICs

**ANYTHING THAT IS NOT A
DEPOSIT IS NOT INSURED**

**NONDEPOSIT INVESTMENT
PRODUCTS SOLD BY OR
THROUGH A FEDERALLY
INSURED INSTITUTION:**

- 1) are NOT FDIC insured**
- 2) are NOT deposits**
- 3) are NOT guaranteed by the institution**
- 4) are subject to investment risk, including loss of principal.**

Guidelines on Sale of Nondeposit Products:

Policies and Procedures should address:

- 1) Written disclosure of risks**
- 2) Compliance with relevant laws**
- 3) Supervision of all personnel**
- 4) Selection of appropriate products**
- 5) Safeguarding of customer information**
- 6) Authorization, compensation, and training of sales staff**

Disclosures

I Clear and Conspicuous Form

II Minimum Content

- 1) not FDIC insured**
- 2) not a deposit of, or guaranteed by, the institution**
- 3) subject to investment risk including possible loss of principal**

III Additional Disclosures may explain:

- 1) The product itself**
- 2) The institution's connection to the sale**

III Additional Disclosures, cont

- 3) All risks associated with the product**
- 4) Fees, penalties, and surrender charges**
- 5) Non-FDIC insurance (e.g. SIPC)**

IV When Disclosures should be made:

- 1) Orally during sales presentation**
- 2) Orally when giving investment advice**
- 3) Orally and in writing at or prior to sale**

IV When Disclosures should be made: --cont.

4) In confirmations and account statements

5) In all advertisements and promotional material

V Signed Customer Acknowledgment when account is opened

VI Segregate information on insured and uninsured products

ADVERTISING AND SALES

GOAL: AVOID CUSTOMER CONFUSION

- 1) Physically separate the sales area from the retail deposit area**
- 2) Use different employees**
- 3) Avoid using names which are identical to the institution's name**

QUALIFICATIONS AND **TRAINING**

- 1) Check employee background**
- 2) Train employees in sales, products, and customers' needs**
- 3) Securities Training should be equivalent to that for registered representatives**

PRODUCT SUITABILITY **&** **SALES PRACTICES**

- 1) Use fair and reasonable sales practices**
- 2) Understand customer's needs**
- 3) Document and update customer investment objectives**

COMPLIANCE

- 1) Laws, policies, and Interagency Statement**
- 2) Avoid conflicts and potential conflicts of interest**
- 3) Monitor customer complaints and their resolution**